



**FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**With Report of**

**Certified Public Accountants**



**HINTONBURDICK**

**HINTON BURDICK HALL & SPILKER PLLC**

**CPAs & ADVISORS**

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**FINANCIAL SECTION**



**HINTONBURDICK**  
HINTON BURDICK HALL & SPILKER PLLC  
**CPAs & ADVISORS**

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
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MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

**Independent Auditors' Report**

The Honorable Mayor and  
Members of the City Council  
City of Santa Clara, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clara, Utah, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Santa Clara's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clara, Utah as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2006, on our consideration of the City of Santa Clara's internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information.

However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Santa Clara's basic financial statements. The accompanying combining statements, capital asset schedules, and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Santa Clara, Utah. The combining statements and schedules have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

*Hinton, Burdick, Hall & Spilker PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC

September 20, 2006

## **City of Santa Clara City, Utah Management's Discussion and Analysis**

This section of Santa Clara's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the City's financial statements, which follow this section.

### **Financial Highlights/Executive Summary**

- The assets of Santa Clara City exceeded its liabilities at the close of the most recent fiscal year by \$32,031,798 (net assets). Of this amount, \$5,965,947 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors (refer to table entitled SANTA CLARA CITY'S Net Assets).
- During the year, the City's expenses were \$715,813 less than the \$4,028,660 generated in taxes and other revenues for governmental programs (refer to table entitled SANTA CLARA CITY'S Changes in Net Assets).
- As of the close of the current fiscal year, Santa Clara City's governmental funds reported combined ending fund balances of \$2,613,835. Approximately 19.49% of this total amount, \$509,528 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$509,528 or 22.83% of total general fund expenditures.
- Santa Clara City's total long-term debt increased by \$333,000 or 7.8% during the current fiscal year. The key factor for this increase was the issuance of Water Revenue Bonds, Series 2005, for the reconstruction of water lines along Santa Clara Drive in association with Streetscape improvements. (refer to table entitled SANTA CLARA CITY'S Outstanding Debt).
- At the end of the current fiscal year, Santa Clara City's general fund revenues exceed general fund expenditures by \$463,352.

### **Overview of Financial Statements**

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements:
  - The government funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
  - Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses. Santa Clara City, utilizing three proprietary funds, manages three business activities: water, sewer and electric.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**Government-wide Statements.** The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net

assets includes *all* of the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets- the difference between the City's assets and liabilities- is one way to measure the city's financial health, or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To access the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the city are divided into two categories:

- *Governmental activities*-Most of the City's basic services are included here, such as public safety, public works, parks department and general administration. Property taxes, sales taxes, franchise fees and state and federal grants finance most of these activities.
- *Business-type activities*-The City charges fees to customers to help it cover the costs of services it provides. The City's water, sewer and electric activities are included here.

**Fund Financial Statements.** The fund financial statements provide more detailed information about the City's most significant *funds*--not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources (revenues) and uses (expenditures) of funding for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes (like the City's special impact fee fund used to track collection and expenditure of certain impact fees).

The City has two kinds of funds:

- *Governmental funds*-Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds*-Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.  
-In fact, the City's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Santa Clara, assets exceed liabilities by \$32,031,798 at the close of the most recent fiscal year.

By far the largest portion of Santa Clara's net assets, (86.28% for Government Activities & 38.22% for Business-Type Activities) reflects its investment in capital assets (e.g. land, buildings, equipment, etc.) less any related debt used to acquire those assets that is still outstanding. Santa Clara City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Santa Clara's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### Santa Clara City's Net Assets

	Governmental activities		Business-type activities	
	6/30/2006	6/30/2005	6/30/2006	6/30/2005
Current and other assets	\$ 2,976,262	\$ 3,463,063	\$ 8,884,915	\$ 6,427,237
Capital assets	17,943,546	18,021,286	9,145,526	9,156,106
Total assets	20,919,808	21,484,349	18,030,441	15,583,343
Long-term liabilities outstanding	1,576,629	598,527	4,251,928	3,541,116
Other liabilities	373,138	2,372,931	716,756	686,137
Total liabilities	1,949,767	2,971,458	4,968,684	4,227,253
Net assets:				
Invested in capital assets, net of related debt	16,366,917	16,367,489	4,992,389	5,301,767
Restricted	1,462,187	1,768,620	3,244,358	2,580,933
Unrestricted	1,140,937	118,119	4,825,010	3,473,390
Total net assets	<u>\$ 18,970,041</u>	<u>\$ 18,254,228</u>	<u>\$ 13,061,757</u>	<u>\$ 11,356,090</u>

#### Percentages of Net Assets

Net asset type	Governmental Activities	Business-type Activities	Total
Invested in capital assets, net of related debt	86.28%	38.22%	66.68%
Restricted net assets	7.71%	24.84%	14.69%
Unrestricted net assets	6.01%	36.94%	18.63%
Total net assets	100.0%	100.0%	100.0%

An additional portion of Santa Clara's net assets (7.71% & 24.84% respectfully) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$5,965,947 (6.01% and 36.94% respectfully) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Santa Clara is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate government and business-type activities.

**Governmental activities.** Governmental activities Increased Santa Clara's net assets by \$715,813.

**Business-type activities.** Business-type activities increased Santa Clara's net assets by \$1,750,426, accounting for the growth in the government's net assets (refer to table).

**Santa Clara City's Changes in Net Assets  
For the Fiscal Year Ended June 30, 2006**

	Governmental activities		Business-type activities	
	6/30/2006	6/30/2005	6/30/2006	6/30/2005
<b>Revenues:</b>				
Program revenues:				
Charges for services	\$ 923,352	\$ 859,547	\$ 4,519,877	4,130,288
Operating grants and contributions	369,179	152,224	-	-
Capital grants and contributions	1,394,124	2,465,802	1,501,205	1,815,686
General revenues:				
Taxes	1,281,262	1,016,462	-	-
Unrestricted investment earnings	53,122	29,538	312,459	114,438
Gain (loss) on disposal of assets	7,621	122,315	8,337	-
Other	-	67,865	-	67,708
Total revenues	<u>4,028,660</u>	<u>4,713,753</u>	<u>6,341,878</u>	<u>6,128,120</u>
<b>Expenses:</b>				
General government	668,545	577,715	-	-
Public safety	749,619	590,394	-	-
Public works	1,473,341	2,532,453	-	-
Parks and recreation	374,411	285,922	-	-
Community development	23,329	18,182	-	-
Interest on long-term debt	23,602	26,203	-	-
Water	-	-	1,149,964	1,053,385
Sewer	-	-	517,096	439,098
Landfill	-	-	2,924,392	2,548,059
Total expenses	<u>3,312,847</u>	<u>4,030,869</u>	<u>4,591,452</u>	<u>4,040,542</u>
Increase in net assets	715,813	682,884	1,750,426	2,087,578
Net assets, beginning	18,254,228	17,571,344	11,356,090	9,268,512
Prior period adjustment	-	-	(44,759)	-
Net assets, ending	<u>\$ 18,970,041</u>	<u>\$ 18,254,228</u>	<u>\$ 13,061,757</u>	<u>\$ 11,356,090</u>

**Financial Analysis of the Government's Funds**

As noted earlier, Santa Clara uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Government funds.** The focus of Santa Clara's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Santa Clara's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Santa Clara's governmental funds reported combined ending fund balances of \$2,613,835, an increase of \$694,888 in comparison with the prior year; \$509,528 or (19.49%) of the fund balance constitutes *unreserved/undesignated* fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* (\$2,104,307). The reserved fund balance indicates that the balance is not available for new spending because it has already been committed.

The general fund is the chief operating fund of Santa Clara. At the end of the current fiscal year, *unreserved/undesignated* fund balance of the general fund was \$509,528 or (63.98%) of the total fund balance \$796,407. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 22.83% of total general fund expenditures, while total fund balance represents 35.68% of that same amount.

Other governmental funds (capital projects fund, special impact fee fund, special improvement district fund) have a total fund balance of \$1,817,428, all of which is reserved for designated capital expenditures and the procurement of impact fee related items. The fund balance experienced a net increase of \$231,536.

**Proprietary funds.** Santa Clara City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets for Water, Sewer and Electric utilities at the end of the year totaled \$4,825,010. Additionally, all three enterprise funds experienced increases in total net assets at the end of the year.

### **General Fund Budgetary Highlights**

The general fund was amended twice during the year. The first amendment was completed on June 29, 2005, for the following purposes: 1) create the City of Santa Clara Capital Projects Fund Budget to receive and account for all expenditures relating to the forthcoming Streetscape Project; and 2) properly transfer a portion of the General Fund's designated fund balance to the newly created Capital Projects Fund Budget to maintain compliance with State's Fiscal Procedures Act limiting fund balances to 18% of estimated revenues.

On June 28, 2006, the City Council approved a second amendment increasing the General Fund's budget by 22% or \$473,191. The primary purpose for the second amendment was to properly account for actual revenues received that exceeded revenue projections, designate additional revenues to the General Fund's designated fund balance, and transfer additional revenues to the Capital Projects Fund. The second amendment also included changes to the General Impact Fee Fund and Flood Fund.

In May 2006, the City Council approved Ordinance 2006-10 revising the City's electrical impact fees. The new impact fees were based on the recommendations outlined in the newly updated electrical capital facilities plan.

In June 2006, the City Council approved the fiscal year 2006-2007 budget increasing water service fee rate structure, water connection fees and cemetery fee schedule.

### Capital Asset and Debt Administration

**Capital assets.** Santa Clara City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$27,089,072 (net of accumulated depreciation). This investment in capital assets includes water stock, land, buildings, improvements, infrastructure (roads, water lines, sewer lines, power lines), autos and trucks, machinery and equipment, office.

#### SANTA CLARA CITY Net Capital Assets (Net of depreciation)

	Governmental Activities	Business-type Activities	Total
Land and water rights	\$ 1,252,280	\$ 396,321	\$ 1,648,601
Buildings	582,746	70,878	653,624
Improvements	1,125,957	-	1,125,957
Autos & trucks	517,824	82,232	600,056
Machinery and equipment	203,908	224,607	428,515
Office equipment	8,436	-	8,436
Construction in progress	115,944	-	115,944
Infrastructure	14,136,451	8,371,488	22,507,939
Total	<u>\$ 17,943,546</u>	<u>\$ 9,145,526</u>	<u>\$ 27,089,072</u>

This year's major capital asset additions included:

- Other fleet and equipment expansion and replacement.
- Dedication of numerous public roads within new subdivision developments

Santa Clara City in subsequent years intends to depreciate road infrastructure and expense maintenance work done on the roads. Any maintenance project(s) that would extend the life of the road will be captured as a fixed asset and depreciated in subsequent years. All new roads received by the City from new subdivision development will be added to the City's road infrastructure assets.

**Long-term debt.** At year-end the City had \$4,270,000 in bonds outstanding—an increase of 7.8% over the last year—as shown in the table entitled *SANTA CLARA CITY'S Outstanding Debt*. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

#### SANTA CLARA CITY Outstanding General Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total		% Change
	2006	2005	2006	2005	2006	2005	
General obligation bonds	\$ 179,000	\$ 212,000	\$ -	\$ -	\$ 179,000	\$ 212,000	-18.44%
Revenue bonds	-	-	4,091,000	3,725,000	4,091,000	3,725,000	8.95%
Total	<u>\$ 179,000</u>	<u>\$ 212,000</u>	<u>\$ 4,091,000</u>	<u>\$ 3,725,000</u>	<u>\$ 4,270,000</u>	<u>\$ 3,937,000</u>	7.80%

### **Economic Factors and Next Year's Budgets and Rates**

- The property tax levy for FY 2006-2007 is .001398 mills.
- Population growth, as measured by building permit issuance, remains robust at 7%.
- City issued 136 building permits in 2005.
- Total FY 2006-2007 Budget, including all funds, sums to \$10,865,341, an increase of 44.58%. This increase is primarily due to anticipated funding for the Historic Downtown Streetscape Project.
- The following infrastructure projects are anticipated in FY 2006-2007: Historic Downtown Streetscape Project; power generation station; south hills water tank; and development of a new City hall.

### **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, 2721 Santa Clara Drive, Santa Clara City, Utah, 84765.

**BASIC FINANCIAL STATEMENTS**

**CITY OF SANTA CLARA, UTAH**  
**Statement of Net Assets**  
**June 30, 2006**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 688,096	\$ 3,244,204	\$ 3,932,300
Receivables (net of allowance)	438,354	840,395	1,278,749
Inventory	-	285,100	285,100
Prepays	43,861	17,752	61,613
Deferred charges	-	71,920	71,920
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	1,805,951	4,425,544	6,231,495
Capital assets (net of accumulated depreciation):			
Land and water rights	1,252,280	396,321	1,648,601
Buildings	582,746	70,878	653,624
Improvements	1,125,957	-	1,125,957
Autos & trucks	517,824	82,232	600,056
Machinery and equipment	203,908	224,607	428,515
Office equipment	8,436	-	8,436
Construction in progress	115,944	-	115,944
Infrastructure	14,136,451	8,371,488	22,507,939
Total assets	<u>20,919,808</u>	<u>18,030,441</u>	<u>38,950,249</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	362,427	676,932	1,039,359
Interest payable	10,711	39,824	50,535
Noncurrent liabilities:			
Due within one year	121,003	383,227	504,230
Due in more than one year	1,455,626	3,868,701	5,324,327
Total liabilities	<u>1,949,767</u>	<u>4,968,684</u>	<u>6,918,451</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	16,366,917	4,992,389	21,359,306
Restricted for:			
Debt service	47,153	552,664	599,817
Capital outlay	640,527	2,691,694	3,332,221
Other purposes	774,507	-	774,507
Unrestricted	1,140,937	4,825,010	5,965,947
Total net assets	<u>\$ 18,970,041</u>	<u>\$ 13,061,757</u>	<u>\$ 32,031,798</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF SANTA CLARA, UTAH**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating Grants & Contributions		Primary Government		Total
		Charges for Services	Capital Grants & Contributions	Governmental Activities	Business-type Activities	
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 668,545	\$ 392,768	\$ 17,127	\$ (258,650)	\$ -	\$ (258,650)
Public safety	749,619	334,313	33,196	(332,835)	-	(332,835)
Public works	1,473,341	134,974	264,301	(16,444)	-	(16,444)
Parks and recreation	374,411	30,643	54,555	(1,986)	-	(1,986)
Community development	23,329	30,654	-	7,325	-	7,325
Interest on long-term debt	23,602	-	-	(23,602)	-	(23,602)
Total governmental activities	3,312,847	923,352	369,179	(626,192)	-	(626,192)
<b>Business-type activities:</b>						
Water	1,149,964	942,717	-	-	432,626	432,626
Sewer	517,096	506,591	-	-	143,568	143,568
Electric	2,924,392	3,070,569	-	-	853,436	853,436
Total business-type activities	4,591,452	4,519,877	-	-	1,429,630	1,429,630
<b>Total primary government</b>	<b>\$ 7,904,299</b>	<b>\$ 5,443,229</b>	<b>\$ 369,179</b>	<b>(626,192)</b>	<b>1,429,630</b>	<b>803,438</b>
<b>General Revenues:</b>						
<b>Taxes:</b>						
Property taxes levied for general purposes				382,485	-	382,485
Sales and use taxes				568,150	-	568,150
Franchise taxes				244,130	-	244,130
Telecommunications tax				86,497	-	86,497
Unrestricted investment earnings				53,122	312,459	365,581
Gain (loss) on disposal of assets				7,621	8,337	15,958
Total general revenues & transfers				1,342,005	320,796	1,662,801
Change in net assets				715,813	1,750,426	2,466,239
Net assets - beginning				18,254,228	11,356,090	29,610,318
Prior period adjustment				-	(44,759)	(44,759)
Net assets - ending				\$ 18,970,041	\$ 13,061,757	\$ 32,031,798

The accompanying notes are an integral part of the financial statements.

**CITY OF SANTA CLARA, UTAH**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 688,096	\$ -	\$ 688,096
Receivables	30,829	-	30,829
Due from other governments	130,374	277,151	407,525
Prepaid expenses	22,501	21,360	43,861
Restricted cash and cash equivalents	286,879	1,519,072	1,805,951
<b>Total assets</b>	<u><u>\$ 1,158,679</u></u>	<u><u>\$ 1,817,583</u></u>	<u><u>\$ 2,976,262</u></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 112,235	\$ 155	\$ 112,390
Accrued liabilities	25,217	-	25,217
Customer deposits	90,670	-	90,670
Security holdings	134,150	-	134,150
<b>Total liabilities</b>	<u><u>362,272</u></u>	<u><u>155</u></u>	<u><u>362,427</u></u>
<b>Fund Balances:</b>			
<b>Reserved for:</b>			
Debt service	57,864	-	57,864
Capital outlay		1,817,428	1,817,428
Class "C" roads	215,930	-	215,930
Other	13,085		13,085
<b>Unreserved, reported in:</b>			
General fund	509,528	-	509,528
<b>Total fund balances</b>	<u><u>796,407</u></u>	<u><u>1,817,428</u></u>	<u><u>2,613,835</u></u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 1,158,679</u></u>	<u><u>\$ 1,817,583</u></u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 17,943,546

Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds. (1,587,340)

Net assets of governmental activities \$ 18,970,041

The accompanying notes are an integral part of the financial statements.

**CITY OF SANTA CLARA, UTAH**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
Taxes	\$ 1,281,262	\$ -	\$ 1,281,262
Licenses, permits and fees	230,588	-	230,588
Intergovernmental revenue	255,053	135,356	390,409
Charges for services	727,275	-	727,275
Fines and forfeitures	46,978	-	46,978
Investment earnings	29,806	55,222	85,028
Special assessments		14,680	14,680
Other revenues	112,735	-	112,735
<b>Total revenues</b>	<b>2,683,697</b>	<b>205,258</b>	<b>2,888,955</b>
<b>Expenditures:</b>			
Current:			
General government	673,504	-	673,504
Public safety	624,355	-	624,355
Public works	436,255	216,573	652,828
Parks, recreation & public property	396,071	-	396,071
Community and economic development	23,246	-	23,246
Debt service	78,404	52,444	130,848
Capital outlay	-	226,473	226,473
<b>Total expenditures</b>	<b>2,231,835</b>	<b>495,490</b>	<b>2,727,325</b>
Excess (deficiency) of revenues over (under) expenditures	451,862	(290,232)	161,630
<b>Other Financing Sources (Uses)</b>			
Sale of capital assets	11,490	-	11,490
Impact fees	-	521,768	521,768
Transfers in	-	-	-
<b>Total other financing sources and uses</b>	<b>11,490</b>	<b>521,768</b>	<b>533,258</b>
<b>Net change in fund balances</b>	<b>463,352</b>	<b>231,536</b>	<b>694,888</b>
<b>Fund balances, beginning of year</b>	<b>333,055</b>	<b>1,585,892</b>	<b>1,918,947</b>
<b>Fund balances, end of year</b>	<b>\$ 796,407</b>	<b>\$ 1,817,428</b>	<b>\$ 2,613,835</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF SANTA CLARA, UTAH**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended June 30, 2006**

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Amounts reported for governmental activities in the statement of activities (page 12) are different because:

Net change in fund balances - total governmental funds (page 14)	\$ 694,888
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(684,187)
Sub divider capital contributions do not provide current financial resources in the governmental funds, however these contributions are recorded as revenue in the government-wide statement of activities.	610,146
Governmental funds report the gross proceeds from the sale of fixed assets as revenue. However, in the statement of activities, the revenue received from the sale of fixed assets is reduced by the net book value of the assets at the time of the sale.	(3,699)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	93,914
Accrued Interest for Long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.	4,751
Change in net assets of governmental activities	<u>\$ 715,813</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF SANTA CLARA, UTAH**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
<b>Taxes:</b>				
General property taxes	\$ 353,262	\$ 380,262	\$ 368,922	\$ (11,340)
Prior year's delinquent taxes	7,000	7,000	13,563	6,563
General sales and use taxes	386,606	470,606	568,150	97,544
Franchise taxes	224,345	245,345	244,130	(1,215)
Telecommunications tax	55,000	77,000	86,497	9,497
Total taxes	<u>1,026,213</u>	<u>1,180,213</u>	<u>1,281,262</u>	<u>101,049</u>
<b>Licenses &amp; permits:</b>				
Business license & permits	10,500	10,500	12,950	2,450
Non-business license & permits	115,113	215,113	217,638	2,525
Total license & permits	<u>125,613</u>	<u>225,613</u>	<u>230,588</u>	<u>4,975</u>
<b>Intergovernmental revenues:</b>				
Federal & state grants	1,900	39,900	40,315	415
Class "C" roads	210,000	210,000	212,012	2,012
State liquor allotment	1,000	1,000	2,726	1,726
Total intergovernmental revenues	<u>212,900</u>	<u>250,900</u>	<u>255,053</u>	<u>4,153</u>
<b>Charges for services:</b>				
Refuse collection	205,132	205,132	209,634	4,502
Storm drain fees	92,329	92,329	109,730	17,401
Public safety	87,902	117,902	92,016	(25,886)
Parks & public property	54,859	164,859	256,920	92,061
Cemetery	11,508	11,508	58,975	47,467
Other	-	-	-	-
Total charges for services	<u>451,730</u>	<u>591,730</u>	<u>727,275</u>	<u>135,545</u>
<b>Fines and forfeitures:</b>				
Court fines & forfeitures	64,000	64,000	46,978	(17,022)
<b>Miscellaneous:</b>				
Investment earnings	35,195	35,195	29,806	(5,389)
Administrative service revenue	36,699	36,699	35,856	(843)
Community development	19,218	19,218	25,658	6,440
Contributions	-	41,191	43,945	2,754
Other	35,766	35,766	7,276	(28,490)
Total miscellaneous	<u>126,878</u>	<u>168,069</u>	<u>142,541</u>	<u>(25,528)</u>
<b>TOTAL REVENUES</b>	<u>2,007,334</u>	<u>2,480,525</u>	<u>2,683,697</u>	<u>203,172</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF SANTA CLARA, UTAH**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual (continued)**  
**For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
General government	573,581	695,172	673,504	21,668
Public safety				
Judicial	48,750	48,750	33,462	15,288
Law enforcement	515,321	515,321	500,808	14,513
Building inspection	81,490	88,590	90,085	(1,495)
Total public safety	645,561	652,661	624,355	28,306
Highways and public improvements				
Public works	431,763	431,763	436,255	(4,492)
Total highways and public improvements	431,763	431,763	436,255	(4,492)
Parks, recreation & public property				
Parks, trails & cemetery	330,015	409,015	396,071	12,944
Swiss days	17,095	22,595	22,696	(101)
Princess pageant	2,318	2,318	550	1,768
Total parks, recreation & public property	349,428	433,928	419,317	14,611
Debt service				
Principal	78,403	78,403	58,773	19,630
Interest	-	-	19,631	(19,631)
Total debt service	78,403	78,403	78,404	(1)
<b>TOTAL EXPENDITURES</b>	<b>2,078,736</b>	<b>2,291,927</b>	<b>2,231,835</b>	<b>60,092</b>
Excess (deficiency) of revenues over (under) expenditures	(71,402)	188,598	451,862	263,264
Other Financing Sources (Uses)				
Sale of capital assets	14,000	14,000	11,490	(2,510)
Transfers in	-	-	-	-
Total other financing sources and uses	14,000	14,000	11,490	(2,510)
Net change in fund balances	(57,402)	202,598	463,352	260,754
Fund balances, beginning of year	333,055	333,055	333,055	-
Fund balances, end of year	\$ 275,653	\$ 535,653	\$ 796,407	\$ 260,754

The accompanying notes are an integral part of the financial statements.

**CITY OF SANTA CLARA, UTAH**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2006**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Totals Current Year</u>
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 851,115	\$ 382,079	\$ 2,011,010	\$ 3,244,204
Receivables, net of allowance	236,125	48,820	532,050	816,995
Assessments receivable	-	23,400	-	23,400
Prepaid	7,608	2,536	7,608	17,752
Inventory	-	-	285,100	285,100
<b>Total current assets</b>	<u>1,094,848</u>	<u>456,835</u>	<u>2,835,768</u>	<u>4,387,451</u>
<b>Noncurrent assets:</b>				
Restricted cash and cash equivalents	2,303,779	298,586	1,823,179	4,425,544
Bond discounts and issuance costs, net of accumulated amortization	71,920	-	-	71,920
<b>Capital assets:</b>				
Land and water rights	396,321	-	-	396,321
Buildings	14,594	29,695	46,940	91,229
Distribution and collection systems	7,270,225	1,585,959	5,532,397	14,388,581
Machinery and equipment	53,275	209,104	223,449	485,828
Automobiles and trucks	66,474	46,534	124,844	237,852
Less: Accumulated depreciation	(2,963,756)	(698,105)	(2,792,424)	(6,454,285)
<b>Total capital assets (net of accumulated depreciation)</b>	<u>4,837,133</u>	<u>1,173,187</u>	<u>3,135,206</u>	<u>9,145,526</u>
<b>Total noncurrent assets</b>	<u>7,212,832</u>	<u>1,471,773</u>	<u>4,958,385</u>	<u>13,642,990</u>
<b>Total assets</b>	<u>8,307,680</u>	<u>1,928,608</u>	<u>7,794,153</u>	<u>18,030,441</u>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable	49,647	139,837	424,260	613,744
Accrued liabilities	4,572	1,486	14,661	20,719
Customer deposits	42,469	-	-	42,469
Interest payable	12,136	1,698	25,990	39,824
Current portion of noncurrent liabilities	192,605	27,272	163,350	383,227
<b>Total current liabilities</b>	<u>301,429</u>	<u>170,293</u>	<u>628,261</u>	<u>1,099,983</u>
<b>Noncurrent liabilities:</b>				
Compensated absences payable	8,605	4,916	13,350	26,871
Notes payable	-	134,057	-	134,057
Bonds payable	2,851,000	-	1,240,000	4,091,000
Less current portion of noncurrent liabilities	(192,605)	(27,272)	(163,350)	(383,227)
<b>Total noncurrent liabilities</b>	<u>2,667,000</u>	<u>111,701</u>	<u>1,090,000</u>	<u>3,868,701</u>
<b>Total liabilities</b>	<u>2,968,429</u>	<u>281,994</u>	<u>1,718,261</u>	<u>4,968,684</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	2,058,053	1,039,130	1,895,206	4,992,389
Restricted for debt service	352,664	-	200,000	552,664
Restricted for capital outlay	904,592	295,017	1,492,085	2,691,694
Unrestricted	2,023,942	312,467	2,488,601	4,825,010
<b>Total net assets</b>	<u>\$ 5,339,251</u>	<u>\$ 1,646,614</u>	<u>\$ 6,075,892</u>	<u>\$ 13,061,757</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF SANTA CLARA, UTAH**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Totals Current Year</u>
<b>Operating revenues:</b>				
Charges for services	\$ 905,961	\$ 506,591	\$ 3,002,967	\$ 4,415,519
Other revenues	10,756	-	17,682	28,438
Total operating revenues	<u>916,717</u>	<u>506,591</u>	<u>3,020,649</u>	<u>4,443,957</u>
<b>Operating expenses:</b>				
Sewer treatment	-	289,317	-	289,317
Wholesale power purchases	-	-	1,954,634	1,954,634
Salaries and wages	166,534	60,992	227,223	454,749
Supplies and operating costs	301,611	9,917	49,824	361,352
Depreciation	318,251	88,903	282,930	690,084
Amortization	6,111	-	-	6,111
Payroll taxes & employee benefits	58,616	22,262	84,015	164,893
Office & department supplies	675	8,543	8,158	17,376
Professional services	121,712	6,681	52,339	180,732
Insurance and surety bonds	31,575	13,803	31,835	77,213
Miscellaneous	188	-	-	188
Franchise fees	-	-	158,351	158,351
Billing and administration	13,593	9,270	12,993	35,856
Total operating expenses	<u>1,018,866</u>	<u>509,688</u>	<u>2,862,302</u>	<u>4,390,856</u>
Operating income (loss)	<u>(102,149)</u>	<u>(3,097)</u>	<u>158,347</u>	<u>53,101</u>
<b>Nonoperating revenues (expenses):</b>				
Interest income and penalties	114,640	32,167	165,652	312,459
Connection fees	26,000	-	49,920	75,920
Impact fees	465,875	8,041	535,119	1,009,035
Gain (loss) on disposal of assets	(4,749)	(222)	13,308	8,337
Interest expense	(131,098)	(7,408)	(62,090)	(200,596)
Total nonoperating revenues (expenses)	<u>470,668</u>	<u>32,578</u>	<u>701,909</u>	<u>1,205,155</u>
Income before contributions and transfers	<u>368,519</u>	<u>29,481</u>	<u>860,256</u>	<u>1,258,256</u>
<b>Contributions and transfers:</b>				
Capital contributions - sub dividers	173,998	146,032	172,140	492,170
Change in net assets	<u>542,517</u>	<u>175,513</u>	<u>1,032,396</u>	<u>1,750,426</u>
Total net assets, beginning of year	4,796,734	1,515,860	5,043,496	11,356,090
Prior period adjustments	-	(44,759)	-	(44,759)
Total net assets, end of year	<u>\$ 5,339,251</u>	<u>\$ 1,646,614</u>	<u>\$ 6,075,892</u>	<u>\$ 13,061,757</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF SANTA CLARA, UTAH**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Totals Current Year</u>
<b>Cash flows from operating activities:</b>				
Cash received from customers, service fees	\$ 934,190	\$ 504,078	\$ 2,855,690	\$ 4,293,958
Cash received from customers, capacity fees and other	10,756	-	17,682	28,438
Cash paid to suppliers	(441,161)	(276,523)	(2,190,202)	(2,907,886)
Cash paid to employees	(224,697)	(81,988)	(308,541)	(615,226)
Net cash flows from operating activities	<u>279,088</u>	<u>145,567</u>	<u>374,629</u>	<u>799,284</u>
<b>Cash flows from capital and related financing activities:</b>				
Bond proceeds	665,187	-	-	665,187
Principal payments on long-term debt	(173,000)	(21,530)	(145,000)	(339,530)
Interest paid	(132,716)	(5,710)	(66,181)	(204,607)
Purchase of fixed assets	(92,434)	(6,000)	(157,141)	(255,575)
Proceeds from the sale of capital assets	11,320	5,660	59,600	76,580
Connection and impact fees	491,875	8,041	585,039	1,084,955
Net cash flows from capital and related financing activities:	<u>770,232</u>	<u>(19,539)</u>	<u>276,317</u>	<u>1,027,010</u>
<b>Cash flows from investing activities:</b>				
Interest on investments	<u>114,640</u>	<u>32,167</u>	<u>165,652</u>	<u>312,459</u>
Net change in cash and cash equivalents	1,163,960	158,195	816,598	2,138,753
Cash and cash equivalents, beginning of year	<u>1,990,934</u>	<u>522,470</u>	<u>3,017,591</u>	<u>5,530,995</u>
Cash and cash equivalents, end of year	<u>\$ 3,154,894</u>	<u>\$ 680,665</u>	<u>\$ 3,834,189</u>	<u>\$ 7,669,748</u>
<b>Reconciliation of operating income (loss) to net cash flows from operating activities:</b>				
Net operating income (loss)	\$ (102,149)	\$ (3,097)	\$ 158,347	\$ 53,101
Adjustments to reconcile net operating income (loss) to net cash flows from operating activities				
Depreciation/amortization	324,362	88,903	282,930	696,195
Changes in operating assets and liabilities:				
(Increase) Decrease in receivables	22,461	(2,513)	(147,277)	(127,329)
(Increase) Decrease in inventory	-	-	(175,936)	(175,936)
(Increase) Decrease in prepaid expenses	(1,269)	(423)	(1,268)	(2,960)
Increase (Decrease) in accounts payable	23,621	59,945	247,671	331,237
Increase (Decrease) in accrued liabilities	4,572	1,486	7,465	13,523
Increase (Decrease) in customer deposits	7,037	-	-	7,037
Increase (Decrease) in compensated absences	453	1,266	2,697	4,416
Net cash flows from operating activities	<u>\$ 279,088</u>	<u>\$ 145,567</u>	<u>\$ 374,629</u>	<u>\$ 799,284</u>
<b>Noncash investing, capital, and financing activities</b>				
Capital contributions from sub dividers	\$ 173,998	\$ 146,032	\$ 172,140	\$ 492,170

The accompanying notes are an integral part of the financial statements.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1.      Summary of Significant Accounting Policies**

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**General**

The City of Santa Clara (the "City") is organized as a Mayor/Council form of government. Santa Clara is located in the southwestern part of Washington County, Utah.

The financial statements of the City of Santa Clara, Utah have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

**Reporting Entity**

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Santa Clara, this includes various services including police protection, recreation (including parks), planning and zoning, street maintenance and repair, sanitation, water distribution, sewer collection, electric distribution, and general administrative services. The City Council directly controls the operation of each of these activities through the budgetary process. In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is whether or not the City exercises significant influence over the potential component unit. Significant influence or accountability is based primarily on operational or financial relationships with the City. Based on these criteria, the City has no component units to be included in the financial statements of the City.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

**Governmental fund financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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The City reports the following major governmental fund:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The Water Fund is used to account for the activities of the City's water production, treatment, and distribution operation.

The Sewer Fund accounts for the revenues generated from sewer services provided to residential and commercial users within the City.

The Electric fund accounts for the activities of the City's electric distribution operations.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted assets are available for use, it is the City's policy to use restricted assets first, then unrestricted assets as they are needed. The City does reserve the right to be selective in the use of such restricted assets that best fit the City's needs.

**Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. The City's policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the state treasurer's pool, and other investments as allowed by the State of Utah's Money Management Act. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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**Receivables and Payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to" or "due from other funds." In the Water, Sewer, and Electric funds, the City records utility revenues billed to customers when meters are read on a monthly basis. Unbilled service accounts receivable at June 30, 2006 were estimated based upon July billings and are included in the operating revenues and accounts receivable at year end. Due to the nature of the accounts receivable in the governmental and business-type activities of the City, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

**Inventories and prepaid items**

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories of the business-type activities are valued at the lower of FIFO cost or market. Market is considered as replacement cost.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20-50 years
Machinery and equipment	5-20 years
Autos & trucks	5-8 years
Infrastructure	15-40 years

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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**Compensated Absences**

For governmental funds, amounts of vested or accumulated vacation and comp time that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net assets and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation and comp time in the proprietary funds are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements. Accumulated unpaid vacation pay and comp time are accrued based upon the City's expected legal obligation as of the statement date. No provision is made for accumulated sick leave because the City is not obligated to pay accumulated sick leave upon termination or retirement.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Estimates**

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

**Encumbrances**

Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation is not employed by the City.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted sources are used before unrestricted sources to fund budget appropriations.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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**Contributions of Capital**

Contributions of capital in the proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

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**NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements**

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**Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:**

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds payable	\$ (179,000)
Notes payable	(936,995)
Capital leases payable	(419,846)
Compensated absences	(40,788)
Accrued interest payable	<u>(10,711)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities.	<u><u>\$ (1,587,340)</u></u>

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements, continued**

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**Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:**

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital Outlay	\$ 376,053
Depreciation Expense	<u>(1,060,240)</u>
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net assets of governmental funds	  <u><u>\$ (684,187)</u></u>

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 3. Stewardship, Compliance, and Accountability**

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**Budgets and Budgetary Accounting**

Annual budgets are reported and adopted by the City Council on or before June 22 for the fiscal year commencing the following July 1 in accordance with State Law. The operating budget includes proposed expenditures and the proposed sources of financing for such expenditures. Prior to June 22, a public hearing is conducted to obtain taxpayer input. Budgets are adopted and control of budget appropriations is exercised, under State Law, at the department level. Budget amendments are required to increase expenditure budgets and are adopted, in a public hearing, before the end of the fiscal year. The budget was amended during the current fiscal year.

The General Fund budget is prepared using the modified accrual basis of accounting. Budgets for the proprietary fund types are prepared using the accrual basis of accounting.

**Taxes**

Property taxes are collected by the Washington County Treasurer and remitted to the City in monthly installments. Taxes are levied each October on the taxable value listed as of the prior January 1 for all real property located in the City. Taxable values are established by the County Assessor at 55 percent of the fair market value on primary residential property and 100 percent of the fair market value on non-primary residential property. A revaluation of all property is required to be completed no less than every five years. Taxes are due and payable on November 1 and delinquent after November 30 of each year, at which time they become liens if not paid.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly. An accrual has been made for all taxes received by the State for the period ending June 30<sup>th</sup> and thus due and payable to the City.

Franchise taxes are charged to various utility companies doing business with the City including telephone, cable television, gas utility, and electric utility companies. The fees are generally remitted on a monthly or quarterly basis. Again, an accrual has been made for all fees due and payable to the City as of June 30<sup>th</sup>.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 4.      Deposits and Investments**

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Deposits and investments of the City at June 30, 2006 consist of the following:

Deposits:	
Cash on hand	\$           300
Cash in bank	623,744
Cash with paying agent	1,127,675
Investments:	
State Treasurer's Investment Pool	<u>8,412,077</u>
 Total Deposits and Investments	 <u><u>\$   10,163,795</u></u>

A reconciliation of cash and investments as show on the statement net assets is as follows:

Cash and cash equivalents	\$   4,069,288
Restricted cash and cash equivalents	<u>6,094,507</u>
	<u><u>\$   10,163,795</u></u>

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**Deposits**

*Custodial Credit Risk*

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2006, \$1,560,439 of the City's bank balance of \$1,760,439 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 4. Deposits and Investments, Continued**

**Investments**

The Money Management Act defines the types of securities authorized as appropriate investment for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments. Financial statements for the PTIF funds can be obtained by contacting the Utah State Treasurer's office.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2006 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Utah Public Treasurers' Investment Fund	\$8,412,077	\$8,412,077	\$ -	\$ -	\$ -
Total Fair Value	<u>\$8,412,077</u>	<u>\$8,412,077</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 4. Deposits and Investments, Continued**

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**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

**Credit risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act.

At June 30, 2006 the City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
Utah Public Treasurers' Investment Fund	\$8,412,077	\$ -	\$ -	\$ -	\$8,412,077
Total Fair Value	<u>\$8,412,077</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,412,077</u>

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 5. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

<b>Governmental Activities:</b>	<b>Balance 6/30/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2006</b>
Capital assets, not being depreciated:				
Land	\$ 1,206,841	\$ 45,439	\$ -	\$ 1,252,280
Construction in progress	-	115,944	-	115,944
Total capital assets, not being depreciated:	<u>1,206,841</u>	<u>161,383</u>	<u>-</u>	<u>1,368,224</u>
Capital assets, being depreciated:				
Buildings	989,021	-	-	989,021
Improvements	1,156,261	203,952	-	1,360,213
Autos and trucks	1,059,940	14,000	(14,860)	1,059,079
Machinery and equipment	554,411	34,108	(48,369)	540,150
Office equipment	110,335	8,049	(60,851)	57,533
Infrastructure	23,870,964	564,707	-	24,435,671
Total capital assets, being depreciated:	<u>27,740,932</u>	<u>824,816</u>	<u>(124,080)</u>	<u>28,441,667</u>
Less accumulated depreciation for:				
Buildings	(374,179)	(32,096)	-	(406,275)
Improvements	(191,922)	(42,334)	-	(234,256)
Autos and trucks	(446,715)	(105,723)	11,182	(541,255)
Machinery and equipment	(326,565)	(58,046)	48,369	(336,242)
Office equipment	(106,164)	(3,763)	60,830	(49,097)
Infrastructure	(9,480,942)	(818,278)	-	(10,299,220)
Total accumulated depreciation	<u>(10,926,487)</u>	<u>(1,060,240)</u>	<u>120,381</u>	<u>(11,866,345)</u>
Total capital assets, being depreciated, net	<u>16,814,445</u>	<u>(235,424)</u>	<u>(3,699)</u>	<u>16,575,322</u>
Governmental activities capital assets, net	<u>\$ 18,021,286</u>	<u>\$ (74,041)</u>	<u>\$ (3,699)</u>	<u>\$ 17,943,546</u>

Depreciation expense was charged to the functions/programs of the City as follows:

<b>Governmental Activities:</b>	
General government	\$ 9,524
Public safety	128,856
Public works	842,115
Parks	79,745
Total depreciation expense - governmental activities	<u>\$ 1,060,240</u>

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 5. Capital Assets, Continued**

<b>Business Type Activities:</b>	<b>Balance 6/30/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2006</b>
Capital assets not being depreciated:				
Land and land easements	\$ 50,000	\$ -	\$ -	\$ 50,000
Water rights	346,321	-	-	346,321
Total capital assets, not being depreciated	396,321	-	-	396,321
Capital assets being depreciated:				
Buildings	93,903	-	-	93,903
Machinery and equipment	461,595	21,560	-	483,155
Autos and trucks	248,150	73,771	84,069	237,852
Distribution system	13,736,166	652,415	-	14,388,581
Total capital assets, being depreciated	14,539,814	747,746	84,069	15,203,491
Less accumulated depreciation for:				
Buildings	(20,719)	(2,306)	-	(23,025)
Machinery and equipment	(200,220)	(58,328)	-	(258,548)
Autos and trucks	(146,862)	(24,583)	(15,826)	(155,619)
Distribution system	(5,412,227)	(604,867)	-	(6,017,094)
Total accumulated depreciation	(5,780,028)	(690,084)	(15,826)	(6,454,286)
Total capital assets, being depreciated, net	8,759,786	57,662	68,243	8,749,205
Business-type activities capital assets, net	<u>\$ 9,156,107</u>	<u>\$ 57,662</u>	<u>\$ 68,243</u>	<u>\$ 9,145,526</u>

Depreciation expense was charged to the functions/programs of the City as follows:

<b>Business-Type Activities:</b>	
Water	\$ 318,251
Sewer	88,903
Electric	282,930
Total depreciation expense - business-type activities	<u>\$ 690,084</u>

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 6. Long-Term Debt**

The following is a summary of changes in long-term obligations for the year ended June 30, 2006:

**Governmental Activities:**

	Balance 6/30/2005	Additions	Retirements	Balance 6/30/2006	Current Portion
General Obligation Bonds	\$ 212,000	\$ -	\$ 33,000	\$ 179,000	\$ 32,000
State House Bill 240 Loan	936,995	-	-	936,995	-
Capital Leases Payable	489,340	-	69,493	419,847	48,215
Compensated Absences	32,207	34,967	26,386	40,788	40,788
<b>Total Governmental Activities</b>	<b>\$ 1,670,542</b>	<b>\$ 34,967</b>	<b>\$ 128,879</b>	<b>\$ 1,576,629</b>	<b>\$ 121,003</b>

**Business-type Activities**

	Balance 6/30/2005	Additions	Retirements	Balance 6/30/2006	Current Portion
Bonds payable:					
Revenue bonds	\$ 3,725,000	\$ 684,000	\$ 318,000	\$ 4,091,000	\$ 334,000
Total Bonds	3,725,000	684,000	318,000	4,091,000	334,000
Capital Leases Payable	155,587	-	21,530	134,057	22,356
Compensated Absences	22,455	19,760	15,344	26,871	26,871
<b>Total Business-Type Activities</b>	<b>3,903,042</b>	<b>703,760</b>	<b>354,874</b>	<b>4,251,928</b>	<b>383,227</b>
<b>Total Long-Term Liabilities</b>	<b>\$ 5,573,584</b>	<b>\$ 738,727</b>	<b>\$ 483,753</b>	<b>\$ 5,828,557</b>	<b>\$ 504,230</b>

Long-term debt for the primary government at June 30, 2006 is comprised of the following issues:

**General Obligation Bonds:**

**Governmental Activities:**

General Obligation Refunding Bonds, Series 2003, due in annual principal installments ranging from \$30,000 to \$39,000, bearing interest semi-annually at 1.75% to 4.00% maturing December 1, 2010.

\$ 179,000

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 6. Long-Term Debt, continued**

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**Revenue Bonds:**

**Business-Type Activities:**

Water Revenue Bonds, Series 1996A, due in annual principal installments ranging from \$80,000 to \$220,000, bearing interest semi-annually at 5.75% maturing December 1, 2016. \$ 1,860,000

Water Revenue Bonds, Series 1996B, due in annual principal installments ranging from \$19,000 to \$32,000, bearing interest annually at 2.37% maturing June 2, 2017. 307,000

Water Revenue Bonds, Series 2005, due in annual principal installments ranging from \$35,000 to \$62,000, bearing interest semi-annually at 3.92% to 5.01% maturing December 1, 2020. 684,000

Electric Revenue Bonds, Series 1999, due in annual principal installments ranging from \$105,000 to \$205,000, bearing interest semi-annually at 5.00% to 5.25% maturing August 1, 2012. 1,240,000

Total Business-Type Activities 4,091,000

**Loans Payable:**

**Governmental Activities:**

State House Bill 240 Loan: In fiscal year 2005 a major flood occurred along the Santa Clara River. In order to assist in flood repairs the State of Utah provided the City with a loan titled "State HB240 Disaster Loan". The loan was provided in the amount of \$936,995 with a 2% interest rate. The State is considering forgiving a portion of the debt, in which case, to the extent forgiven, it would be considered a grant. The State Legislature will address this issue in the January 2007 Legislative session. In the meantime, the State is not requiring payments nor is interest being charged on the balance outstanding. The amount of forgiveness is not ascertainable at this time. \$ 936,995

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 6. Long-Term Debt, continued**

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**Leases Payable:**

**Governmental Activities:**

Leases payable in annual and semi-annual installments through December 2013, at interest from 4.27% to 6%.

\$ 419,847

**Business-Type Activities:**

Lease payable in semi-annual installments through September 2011, at interest of 3.8%.

134,057

**Accrued Compensated Absences**

67,658

Total Long-Term Debt

5,828,557

Less Current portion:

Business-Type Activities

(356,356)

Governmental Activities

(80,215)

Net Long-Term Debt

\$ 5,391,987

The annual requirements to amortize bonds payable at June 30, 2006 are as follows:

**General Obligation Bonds**

Year Ending June 30,	Fire Protection Bonds	
	Principal	Interest
2007	\$ 32,000	\$ 5,815
2008	37,000	4,734
2009	36,000	3,503
2010	35,000	2,216
2011	39,000	780
Totals	<u>\$ 179,000</u>	<u>\$ 17,048</u>

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 6. Long-Term Debt, continued**

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**Revenue Bonds**

Year Ending June 30,	Water Revenue Bonds		Electric Revenue Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 184,000	\$ 141,629	\$ 150,000	\$ 58,438
2008	194,000	134,661	155,000	50,625
2009	202,000	122,903	170,000	42,500
2010	213,000	112,356	175,000	33,875
2011	221,000	101,277	190,000	24,750
2012-2016	1,336,000	316,616	400,000	20,250
2017-2021	501,000	43,441	-	-
Totals	<u>\$ 2,851,000</u>	<u>\$ 972,883</u>	<u>\$ 1,240,000</u>	<u>\$ 230,438</u>

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

**NOTE 7. Capital Leases**

The City has entered into lease agreements, which are considered capital leases in accordance with Financial Accounting Standard Board statement number 13. The following is an annual schedule of future minimum lease payments with interest rates ranging from 3.8% to 6%, together with the present value of the net minimum lease payments:

<u>Year Ending June 30,</u>	<u>Park Land</u>	<u>Type 3 Engine</u>	<u>Water Tender</u>	<u>Total Gov. Activities</u>	<u>Sewer Truck</u>	<u>Total Bus. Activities</u>
2007	13,387	27,467	25,701	66,555	27,240	27,240
2008	13,387	27,467	25,701	66,555	27,240	27,240
2009	5,378	27,467	25,701	58,547	27,240	27,240
2010	-	27,467	25,701	53,169	27,240	27,240
2011	-	27,467	25,701	53,169	27,240	27,240
2012-2016	-	109,869	102,806	212,675	13,620	13,620
Total remaining lease payments:	32,151	247,205	231,313	510,669	149,819	149,819
Less amount representing interest:	(2,813)	(45,467)	(42,544)	(90,824)	(15,762)	(15,762)
Present value of net remaining minimum lease payments:	<u>29,338</u>	<u>201,738</u>	<u>188,769</u>	<u>419,846</u>	<u>134,057</u>	<u>134,057</u>

A summary of the assets acquired through capital leases is as follows:

	<u>Cost</u>	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>
Vehicles and Equipment	\$ 798,373	\$ 87,707	\$ (246,970)
Land Improvements	\$ 100,000	\$ 10,000	\$ (90,000)

**NOTE 8. Equity Classifications**

Equity is classified in the government-wide financial statements as net assets and is displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 8. Equity Classifications, continued**

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- b. Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

At June 30, 2006, the City’s reserved fund balances are as follows:

**General Fund:**

**Reserved:**

Swiss days	\$ 12,555
Princess pageant	530
C road funds	215,930
Debt service - wildlands	57,864
Total	<u>\$ 286,879</u>

**Capital project Fund:**

**Reserved:**

Streetscape	\$ 254,603
City hall	324,516
Total	<u>\$ 579,119</u>

**Special Revenue Funds:**

**Reserved:**

Street impact fees	\$ 414,413
Park impact fees	-
Public safety impact fees	3,720
Flood/storm impact fees	222,394
Special improvement district	39,205
Flood damage 2005	558,577
Total	<u>\$ 1,238,309</u>

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 9.      Defined Benefit Pension Plan**

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All full-time employees of the City participate in the Utah State-Wide Local Government Retirement Systems (Systems).

**Plan Description**

The City of Santa Clara contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the state legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor.

The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with (without) Social Security coverage, and Firefighters Retirement System which are for employers with (without) Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 S., Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**Funding Policy**

In the Local Governmental Noncontributory Retirement System, the City of Santa Clara is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 9. Defined Benefit Pension Plan, Continued**

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The required contributions and amounts received for the 2006 fiscal year and the two previous years are as follows:

<u>Year</u>	<u>Employee paid contributions</u>	<u>Employer paid for employee contributions</u>	<u>Employer contributions</u>	<u>Salary subject to retirement contributions</u>
Noncontributory System:				
Local Governmental Division				
2006	N/A	N/A	\$ 105,837	\$ 954,352
2005	N/A	N/A	91,740	827,231
2004	N/A	N/A	73,394	762,930
Defined Contribution System:				
401 (k) Plan				
2006	\$ 26,578	\$ 10,794	N/A	N/A
2005	13,874	9,314	N/A	N/A
2004	8,457	-	N/A	N/A

The contributions were equal to the required contributions for each year.

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**NOTE 10. Risk Management**

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The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Risk financing activities are accounted for in various operating funds, with unallocated or City-wide activities being accounted for in the general fund.

The City maintains insurance for general liability, auto liability, and employee dishonesty through the Utah Local Government Trust. Worker's compensation coverage is also carried through the Utah Local Government's Insurance Trust.

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**NOTE 11. Prior period adjustment**

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A prior period adjustment was made in the sewer fund. The City discovered that two payments for sewer connection fees payable to St. George City were overlooked in prior years. The adjustment reduces beginning fund balance in the sewer fund and beginning net assets of business-type activities.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 12.      Contracts**

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The City has entered into various contracts for its Sewer, Water, Garbage and Electric Utility Funds. A few of the more significant contracts are as follows:

The city has entered into a 25-year wastewater service contract with St. George City, expiring April, 2012. St. George City provides the use of a connecting system to transport the City's wastewater to the St. George City treatment plant where it is treated for the City in exchange for a monthly service charge.

The City has also entered into an interlocal agreement (Snow Canyon Water Project Interlocal Compact) wherein the City reimburses their share of operating and maintenance cost to St. George City based upon Santa Clara's proportionate ownership/usage of water in the compact.

The City also has a solid waste collection and disposal contract with Washington County Special Service District No. 1 (the District). The contract provides for Laidlaw Waste System, a subcontractor, to collect and dispose of residential and commercial solid waste within the City. In connection with the agreement, the City is responsible for the monthly billing, collection, and payment of residential collections to the District.

Additionally, as a member of the Utah Associated Municipal Power System (UAMPS), the City has entered into the San Juan Power Sales Contract (the Power Sales contract) in order to obtain a long-term supply of firm electric energy for the City. The City purchases electricity from UAMPS in exchange for monthly usage fees based on kilowatt hours used.

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**NOTE 13.      Jointly Governed Organization**

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The City, in conjunction with 38 other governmental entities that provide for the purchase and transmission of electrical services, created the Utah Association of Municipal Power System (UAMPS). UAMPS owns an interest in various power generation entities as well as coordinating the purchase of additional power on the open spot-market. The UAMPS board is comprised of one member from each participating entity (dependent on the particular projects which an entity elects to participate in). Except for minimum purchase requirements, no participant has any obligation, entitlement, or residual interest. The City's electric utility fund purchased power totaling \$1,954,634 during the fiscal year ended June 30, 2006.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 14.      Contingent Liabilities**

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Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is not a defendant in any lawsuits at the present time.

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**NOTE 15.      Commitments / Subsequent events**

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The City is committed to participate in the Regional Water Line Project. The City incurred \$63,511 in cost during the current audit period and their future ownership costs are expected to be \$1,423,386 or approximately \$64,648 annually for 22 years.

The City is a member of the Utah Associated Municipal Power System (UAMPS), a political subdivision of the State of Utah created to secure electric power for the members of UAMPS. As a member, the City has entered into power supply agreements with respect to various projects in which UAMPS participated. The total cost of the power the City will be required to purchase in the future is not determinable, however, at a minimum, in connection with these power supply agreements, the City will be required to fund debt service on the UAMPS bonds which, at June 30, 2006 had an outstanding balance of \$ 188,482,393.

As a member of UAMPS, the City has committed to participate in the Payson Power Project. The commitment to the City is estimated to be \$1,300,000. The City has made a down payment on the project of \$300,000.

Congress has passed legislation requiring arsenic levels in water supplies to be below certain maximum levels. Compliance with the new levels took affect in the 2005-2006 fiscal year. The City has complied with the legislation by participating in the regional water line project. The City's participation in the regional waterline includes the blending of water from the regional water line project with existing water sources to bring arsenic levels to an acceptable level.

**CITY OF SANTA CLARA, UTAH**  
**Notes to the Financial Statements**  
**June 30, 2006**

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**NOTE 15.      Commitments / Subsequent Events, continued**

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Congress has passed legislation that requires Cities and Towns to develop a storm water master plan and implement the merits of the plan. The City has completed its plan and began implementation. A major portion of this plan is currently taking place in association with the Streetscape Project. The remainder of the plan is included in the City's Capital Facilities Plan.

Congress has also passed homeland security legislation requiring the City to assess the security for the water system and for the power system. The City has completed its risk assessment and implemented its plan.

Subsequent to year end, the City issued Water Revenue Refunding Bonds Series 2006 in the amount of \$1,556,000.

Subsequent to year end, the City issued Electric Revenue Bonds Series 2006 in the amount of \$3,795,000.

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**NOTE 16.      Employee Theft**

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During fiscal year 2006, the City Treasurer confessed to stealing funds from the City. The Utah State Auditor's office performed an extensive investigation into this matter. The report on their findings can be found on the Utah State Auditor's Website. As a result of the theft, a current year loss of \$22,912 was recorded under general government expenditures in the general fund. The City Treasurer was terminated following confession. The City's internal control framework has been extensively revised as a result of this occurrence.

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**NOTE 17.      Related Party Transactions**

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During fiscal year 2006, Rosenberg Associates was awarded the contract for several engineering projects on which it performed services. A total of \$45,935 was paid to Rosenberg Associates during the fiscal year for the services rendered. Rosenberg Associates is owned by Rick Rosenberg a member of the City Council.

## **NONMAJOR FUNDS**

### **CAPITAL PROJECT FUND**

The **Capital Project Fund** is used to account for capital improvement projects of the City that are not accounted for in other funds.

### **SPECIAL REVENUE FUNDS**

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

**Flood Damage 2005** – This fund is used to account for various federal and state grants and other contributions restricted for use on repairs related to the 2005 flood damage.

**Impact Fees** – This fund is used to account for the collection of impact fees and the expenditure of these fees on public facilities and infrastructure.

**Special Improvement District** – This fund is used account for special improvement district assessments and expenditures related to those assessments.

**CITY OF SANTA CLARA, UTAH**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2006**

	Special Revenue				Total Nonmajor Governmental Funds
	Capital Projects Fund	Flood Damage 2005	Impact Fees	Special Improvement District	
<b>Assets</b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables	-	-	-	-	-
Due from other governments	-	277,151	-	-	277,151
Prepaid expenses	21,360	-	-	-	21,360
Restricted cash and cash equivalents	557,914	281,426	640,527	39,205	1,519,072
Total assets	<u>\$ 579,274</u>	<u>\$ 558,577</u>	<u>\$ 640,527</u>	<u>\$ 39,205</u>	<u>\$ 1,817,583</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 155	\$ -	\$ -	\$ -	\$ 155
Total liabilities	<u>155</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>155</u>
<b>Fund Balances:</b>					
Reserved for:					
Capital outlay	579,119	558,577	640,527	39,205	1,817,428
Unreserved, undesignated	-	-	-	-	-
Total fund balances	<u>579,119</u>	<u>558,577</u>	<u>640,527</u>	<u>39,205</u>	<u>1,817,428</u>
Total liabilities and fund balances	<u>\$ 579,274</u>	<u>\$ 558,577</u>	<u>\$ 640,527</u>	<u>\$ 39,205</u>	<u>\$ 1,817,583</u>

**CITY OF SANTA CLARA, UTAH**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2006**

	<u>Special Revenue</u>				<u>Total Nonmajor Governmental Funds</u>
	<u>Capital Projects Fund</u>	<u>Flood Damage 2005</u>	<u>Impact Fees</u>	<u>Special Improvement District</u>	
<b>Revenues:</b>					
Federal and state grants	\$ -	\$ 135,356	\$ -	\$ -	\$ 135,356
Special assessments	14,680	-	-	-	14,680
Investment earnings	23,317	5,863	26,042	-	55,222
<b>Total revenues</b>	<b>37,997</b>	<b>141,219</b>	<b>26,042</b>	<b>-</b>	<b>205,258</b>
<b>Expenditures:</b>					
Current:					
Public works	-	216,573	-	-	216,573
Capital Outlay:					
General government	43,088	-	-	-	43,088
Parks and recreation	-	-	126,235	-	126,235
Public works	57,150	-	-	-	57,150
Debt service:					
Principal	-	-	43,722	-	43,722
Interest	-	-	8,722	-	8,722
<b>Total expenditures</b>	<b>100,238</b>	<b>216,573</b>	<b>178,679</b>	<b>-</b>	<b>495,490</b>
Excess (deficiency) of revenues over (under) expenditures	(62,241)	(75,354)	(152,637)	-	(290,232)
<b>Other Financing Sources (Uses)</b>					
Impact fees	-	-	521,768	-	521,768
<b>Total other financing sources and uses</b>	<b>-</b>	<b>-</b>	<b>521,768</b>	<b>-</b>	<b>521,768</b>
<b>Net change in fund balances</b>	<b>(62,241)</b>	<b>(75,354)</b>	<b>369,131</b>	<b>-</b>	<b>231,536</b>
Fund balances, beginning of year	641,360	633,931	271,396	39,205	1,585,892
Fund balances, end of year	\$ 579,119	\$ 558,577	\$ 640,527	\$ 39,205	\$ 1,817,428

**CITY OF SANTA CLARA, UTAH**  
**Schedule of Capital Assets Used in the Operations of**  
**Governmental Funds by Function and Activity**  
**As of June 30, 2006**

Functions and Activity	Total	Land	Buildings	Improvements	Machinery & Equipment	Office Equipment	Autos & Trucks	Infrastructure	Construction-in-Progress
<b>General government</b>									
Administration	\$ 747,406	\$ 455,512	\$ 161,884	\$ -	\$ 26,488	\$ 57,533	\$ -	\$ -	\$ 45,989
Public safety	1,541,379	-	483,637	5,853	124,567	-	927,322	-	-
<b>Public works</b>									
Streets	24,797,337	196,282	-	-	267,730	-	81,352	24,194,823	57,150
Storm Drain	240,848	-	-	-	-	-	-	240,848	-
<b>Parks and recreation</b>									
Parks and grounds maintenance	2,482,921	600,486	343,500	1,354,360	121,365	-	50,405	-	12,805
<b>Total governmental funds capital assets</b>	<b>\$ 29,809,891</b>	<b>\$ 1,252,280</b>	<b>\$ 989,021</b>	<b>\$ 1,360,213</b>	<b>\$ 540,150</b>	<b>\$ 57,533</b>	<b>\$ 1,059,079</b>	<b>\$ 24,435,671</b>	<b>\$ 115,944</b>

**CITY OF SANTA CLARA, UTAH**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule of Changes by Function and Activity**  
**For the Year Ended June 30, 2006**

Functions and Activity	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
<b>General government</b>				
Administration	\$ 796,617	\$ 60,010	\$ (109,221)	\$ 747,406
<b>Public safety</b>	1,535,526	5,853	-	1,541,379
<b>Public works</b>				
Streets	24,249,053	563,144	(14,860)	24,797,337
Storm Drain	158,168	82,680	-	240,848
<b>Culture and recreation</b>				
Parks and grounds maintenance	2,208,407	274,514	-	2,482,921
<b>Total governmental funds capital assets</b>	<u>\$ 28,947,771</u>	<u>\$ 986,201</u>	<u>\$ (124,081)</u>	<u>\$ 29,809,891</u>

**SUPPLEMENTARY INFORMATION**

**CITY OF SANTA CLARA, UTAH**  
**Other Supplementary Information**  
**Bond Disclosures**  
**For the Year Ended June 30, 2006**

The Water System Revenue Bond Resolution and the Electric System Bond Resolution set forth certain covenants and restrictions. The City of Santa Clara is in compliance with all covenants and restrictions for the Water System Bond and the Electric system Bond resolution requirements. Adequate funds are available in both the water fund and electric fund for reserve requirements.

Additional disclosures required by the Resolutions are:

	Water	Sewer
Number of connections with the boundaries of the City at June 30, 2006	1,886	1,738
Total billings for the fiscal year ended June 30, 2006	\$ 825,268	\$ 504,430

Water rates for the fiscal year ended June 30, 2006 are as follows:

0 to 9,000 gallons	\$20.00 per month
9001 to 19,000 gallons	\$.80 per 1,000 gallons
19,001 to 24,000 gallons	\$1.00 per 1,000 gallons
24,001 to 29,000 gallons	\$1.25 per 1,000 gallons
over 29,000 gallons	\$1.50 per 1,000 gallons

Monthly billing rates for sewer usage

Residential	\$ 24.35
Commercial	\$ 25.60

Insurance coverage in effect at June 30, 2006:

Provider	Type	Policy Number	Effective	Expires	Limits
Utah Local Government Trust (ULGT)	General Liability	13640-GL2005	12/15/90	Continuous	\$ 5,000,000
Utah Local Government Trust	Auto Liability	13640-GL2005	12/15/90	Continuous	5,000,000
UTLG - Unigard	Auto PD Coverage	BA900005	07/01/06	07/01/07	1,568,268
UTLG - CNA Surety	Fidelity Blanket Bonds	58461366	08/01/03	08/01/06	40,000
UTLG - CNA Surety	Mayor/Recorder Bonds	58461367	08/01/05	08/01/07	198,000
UTLG - CNA Surety	Treasurer Bond	68533585	01/01/06	01/01/08	376,000
UTLG - Unigard	Accidental property - building	PX809764	07/01/06	07/01/07	8,165,800
UTLG - Unigard	Accidental property - contents	PX809764	07/01/06	07/01/07	375,734
UTLG - Unigard	Contractors property - equipment	PX809764	07/01/06	07/01/07	235,727
UTLG - Unigard	Contractors property - EDP	PX809764	07/01/06	07/01/07	25,000
UTLG - Unigard	Equipment in the open	PX809764	07/01/06	07/01/07	1,924,816
UTLG - Unigard	Miscellaneous	PX809764	07/01/06	07/01/07	\$ 389,750

**CITY OF SANTA CLARA, UTAH**  
**Other Supplementary Information**  
**Impact Fee Schedule**  
**For the Year Ended June 30, 2006**

During the 2006 legislative session, the Utah Legislature modified UC 10-5-29 and UC 17A-1-4 requiring governments who collect impact fees to provide additional reporting in their financial statements. The following schedule presents the required information:

<u>Type</u>	<u>Year End</u>	<u>Receipts</u>	<u>Interest Income</u>	<u>Expenditures</u>	<u>Balance</u>
<b>Water Impact</b>					\$624,108.10
	30-Jun-04	\$227,750.00	\$12,877.17	(\$448,730.95)	\$416,004.32
	30-Jun-05	\$567,000.00	\$16,313.54	(\$293,383.30)	\$705,934.56
	30-Jun-06	\$465,875.00	\$38,500.11	(\$305,717.22)	\$904,592.45
<b>Sewer Impact</b>					\$253,408.87
	30-Jun-04	\$4,440.00	\$4,132.81	\$0.00	\$261,981.68
	30-Jun-05	\$6,161.00	\$6,737.74	\$0.00	\$274,880.42
	30-Jun-06	\$8,040.65	\$12,095.80	\$0.00	\$295,016.87
<b>Electric Impact</b>					\$697,731.50
	30-Jun-04	\$272,040.00	\$11,315.66	(\$210,488.00)	\$770,599.16
	30-Jun-05	\$528,500.00	\$22,073.00	(\$208,531.25)	\$1,112,640.91
	30-Jun-06	\$535,119.00	\$55,506.38	(\$211,181.25)	\$1,492,085.04
<b>Street Impact</b>					\$124,172.90
	30-Jun-04	\$74,000.00	\$3,004.04	\$0.00	\$201,176.94
	30-Jun-05	\$143,646.00	\$3,547.38	(\$149,999.47)	\$198,370.85
	30-Jun-06	\$201,732.00	\$14,309.77	\$0.00	\$414,412.62
<b>Parks &amp; Trails Impact</b>					\$66,324.75
	30-Jun-04	\$61,800.00	\$716.13	(\$128,840.88)	\$0.00
	30-Jun-05	\$153,500.00	\$716.13	(\$154,216.13)	\$0.00
	30-Jun-06	\$131,400.00	\$5,556.98	(\$136,956.98)	\$0.00
<b>Flood / Storm Impact</b>					\$5,471.21
	30-Jun-04	\$0.00	\$305.36	\$0.00	\$5,776.57
	30-Jun-05	\$90,367.08	\$537.52	(\$20,000.00)	\$76,681.17
	30-Jun-06	\$139,361.27	\$6,351.44	\$0.00	\$222,393.88
<b>Public Safety Impact</b>					\$5,285.21
	30-Jun-04	\$27,010.00	\$1,134.51	(\$37,769.49)	(\$4,339.77)
	30-Jun-05	\$40,079.50	\$1,138.96	(\$41,814.08)	(\$4,935.39)
	30-Jun-06	\$49,275.00	\$1,102.32	(\$41,721.76)	\$3,720.17

**CITY OF SANTA CLARA, UTAH**  
**Other Supplementary Information**  
**Impact Fee Schedule**  
**For the Year Ended June 30, 2006**

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<b>Water Impact</b>	Reserved for water rights and water supply, treatment and distributions. New water tank, new transmission lines, and ongoing debt service for upsizing infrastructure.
<b>Sewer Impact</b>	Reserved for wastewater collection and treatment facilities. New Valley interceptor sewer line.
<b>Electric Impact</b>	Reserved for municipal power facilities. New power generation facility and substation.
<b>Street Impact</b>	Reserved for road improvements necessitated by new development. "C Road Expenses" are excluded from expenditure calculations. The new streetscape project.
<b>Parks &amp; Trails Impact</b>	Reserved for development of parks, recreational facilities, open space, and trails
<b>Flood / Storm Impact</b>	Reserved for storm water drainage and flood control facilities. New storm water infrastructure associated with the streetscape project.
<b>Public Safety Impact</b>	Reserved for construction or lease of public safety facility (does not include jail). New firestation and ongoing debt service for firestation.

**FEDERAL AND STATE REPORTS**



**HINTONBURDICK**  
HINTON BURDICK HALL & SPILKER PLLC  
**CPAs & ADVISORS**

**Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

**MEMBERS:**  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

The Honorable Mayor and  
Members of the City Council  
City of Santa Clara, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clara, Utah, as of and for the year ended June 30, 2006, which collectively comprise the City of Santa Clara's basic financial statements and have issued our report thereon dated September 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Santa Clara's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the City of Santa Clara in the accompanying management letter dated September 20, 2006.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Santa Clara's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain other matters that we reported to management of the City of Santa Clara, Utah, in a separate letter dated September 20, 2006.

This report is intended for the information of the mayor, audit committee, management, and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

While these reports are intended to be used by the specified parties, which include the applicable government regulatory bodies which require the reports, this report restriction does not alter the fact that the audit reports are public documents which, based on Utah laws, must be open to inspection by any interested person.

*Hinton, Burdick, Hall & Spilker, PLLC*

HINTON, BURDICK, HALL, & SPILKER, PLLC  
September 20, 2006



**HINTONBURDICK**  
HINTON BURDICK HALL & SPILKER PLLC  
**CPAs & ADVISORS**

**MEMBERS:**

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**Independent Auditors' Report on  
State Legal Compliance**

The Honorable Mayor and  
Members of the City Council  
City of Santa Clara, Utah

We have audited the basic financial statements of the City of Santa Clara, Utah, for the year ended June 30, 2006, and have issued our report thereon dated September 20, 2006. As part of our audit, we have audited the City of Santa Clara's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)  
Liquor Law Enforcement (State Tax Commission)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

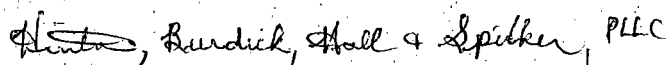
Public Debt  
Cash Management  
Purchasing Requirements  
Budgetary Compliance  
Truth in Taxation and Property Tax Limitations  
Liquor Law Enforcement  
Justice Court  
B & C Road Funds  
Other General Compliance Issues  
Uniform Building Code Standards  
Impact Fees & Other Development Fees  
Asset Forfeitures

The management of the City of Santa Clara is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material non-compliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of non-compliance with the requirements referred to above, which are described in the accompanying schedule of findings and recommendations. We considered these instances of non-compliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City of Santa Clara, Utah, complied, in all material aspects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

 Hinton, Burdick, Hall & Spilker, PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC  
September 20, 2006



**HINTONBURDICK**  
HINTON BURDICK HALL & SPILKER PLLC  
**CPAS & ADVISORS**

**Findings and Recommendations  
For the Year Ended June 30, 2006**

The Honorable Mayor and  
City Council  
City of Santa Clara, Utah

Ladies & Gentlemen:

During our audit of the funds of the City of Santa Clara for the fiscal year ended June 30, 2006, we noted a few areas needing corrective action in order for the City to be in compliance with laws and regulations and we found a few circumstances that, if improved, would strengthen the City's accounting system and control over its assets. These items are discussed below for your consideration.

**Compliance Findings and Recommendations:**

**06-01. Budgetary Compliance**

Finding

The Fiscal Procedures Act for Utah Cities requires Cities to restrict expenditures to the authorized departmental budget. The General Fund "Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual" identifies over-expended departments.

Recommendation

We recommend that the City operate within the confines of State law by limiting expenditures or following proper procedures to adjust the departmental budgets.

**06-02. Surcharge Remittance**

Finding

The City is not filing Form C-500 (State of Utah Deposit Report) and the associated surcharge remittance in a timely manner. *Utah Code* 51-4-2(4)(a) requires that surcharge to be remitted to the State Treasurer's Office by the 10<sup>th</sup> of the month following the receipt of the surcharges.

Recommendation

We recommend that the City operate within the confines of State law by filing Form C-500 and the related surcharges by the 10<sup>th</sup> of the month following their receipt.

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

06-03. General Fund Unreserved Fund Balance

Finding

*Utah Code* 10-6-116(4) requires that only the "fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes." The remaining 5% must be maintained as a maximum fund balance. The maximum in the general fund may not exceed 18% of the total estimated revenue of the general fund (*Utah Code* 10-6-116(2)). We noted that the City exceeded the maximum of 18% in the general fund at year end.

Recommendation

We recommend that the City make adjustments as necessary to the upcoming year's budget in order to reduce the excess fund balance.

**General Findings and Recommendations:**

06-01. Bank Reconciliations

Finding

Not all of the City's bank accounts were reconciled to the general ledger at year end. The operating accounts (checking and money market) were reconciled properly, but the majority of the PTIF (Public Treasurer's Investment Fund) bank statements and bond related trust account bank statements were not yet reconciled to the general ledger at the time of the audit.

Recommendation

We recommend that the City reconcile all bank accounts on a monthly basis and that reconciliations be reviewed by an individual independent of the reconciliation process.

06-02. Payroll Expense Allocations

Finding

The percentages being used by the City's payroll software to calculate workers compensation insurance expense and retirement / benefit expense appear to be incorrect. This caused the above mentioned expense accounts and the related payable accounts to be overstated. In addition, we noted the percentages used to allocate salaries and wages to the various departments and funds were not the same percentages used by the City in establishing their budget.

Recommendation

We recommend that the City update the percentages in their software to ensure that wage and benefit transactions are properly calculated, allocated and recorded.

06-03. Interest Allocation

Finding

For six months during fiscal year 2006, journal entries to allocate interest earned on central treasury cash accounts to the appropriate funds holding monies in the central treasury were not prepared or posted. Interest allocation entries should be posted monthly to allocate interest earned from combined cash accounts to all funds with cash in the central treasury.

Recommendation

We recommend that the City allocate interest revenue earned from combined cash accounts to each applicable fund on a monthly basis.

06-04. Sewer Connection Remittance

Finding

We discovered that the sewer department had overlooked making four payments to St. George City for sewer connection remittances. Two of the payments were in prior years and two were in the current year. A prior period adjustment of \$44,759 was posted for the payments missed in prior years. A liability in excess of \$92,000 was posted to correct this issue.

Recommendation

We recommend that the City remit the past due sewer connection charges to St. George City as soon as possible. We also recommend that the City implement procedures to ensure future sewer connection charges are remitted in a timely manner.

Please respond to the above Findings and Recommendations in letter form for submission to the Utah State Auditor's office as required by State law.

This letter is intended solely for the use of the Mayor, City Council and management and is not intended to be used and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the City this past year. We would like to express special thanks to all those who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel necessary. We look forward to a continued professional relationship.

Sincerely,

*Hinton, Burdick, Hall & Spilker, PLLC*

HINTON, BURDICK, HALL & SPILKER, PLLC  
September 20, 2006

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*"The Jewel of Utah's Dixie"*



Mayor  
**Dennis Drake**

City Manager  
**Matthew J. Brower**

City Council  
**Bruce Anderson**  
**Herb Basso**  
**Matthew J. Ence**  
**Mary Jo Hafen**  
**Rick Rosenberg**

November 28, 2006

Utah State Auditor's Office  
PO Box 142310  
Salt Lake City, UT 84128-4620

Re: Management Letter Response

Ladies and Gentlemen:

This letter is in regards to the findings & recommendations made by our independent auditor's, HINTON, BURDICK, HALL & SPILKER, PLLC, for the audit of Santa Clara City as of June 30, 2006.

**Compliance Findings:**

- 06-01 Finding: The Fiscal Procedures Act for Utah Cities requires Cities to restrict expenditures to the authorized departmental budget. The General Fund "Statement of Revenues, Expenditures and Changes in Fund Balance—Budget and Actual" identifies over-expended departments.

Response: According to the Audit's findings three departments exceeded their authorized appropriations by \$1,495, \$4,492, and \$101 respectively. We review and monitor actual expenditures very closely and amend the budget when necessary. We will also continue to utilize an encumbrance system to insure department's budgets are not overspent at year's end.

- 06-02 Finding: The City is not filing Form C-500 (State of Utah Deposit Report) and the associated surcharge remittance in a timely manner. *Utah Code 51-4-2(4)(a)* requires that surcharge to be remitted to the State Treasurer's Office by the 10<sup>th</sup> of the month following the receipt of the surcharges.

Response: State law requires surcharge payments to be remitted to the State Treasurer's Office by the 10<sup>th</sup> of the month following receipt of the surcharges. The ten days granted for remitting surcharges to the State creates many challenges for the City staff responsible for managing the affairs of the part-time court. For example, the staff responsible for the affairs of the part-time court have numerous additional obligations besides those of the court, each having various time lines and demands. Additionally, the City's payables are processed two times per month in association with monthly City Council meetings and state requirements mandating that City

Councils approve all checks/payables. The City's first Council meeting of the month is not held until the second Wednesday which is typically after the 10<sup>th</sup> of each month. Payment of the surcharge prior to the 10<sup>th</sup> requires a separate check run which ultimately adds more work to a small staff with numerous responsibilities and payment of the check without following internal controls requiring City Council review and approval all payables prior to their forwarding.

The City will have to reconcile the two contradicting state requirements--one which requires payment of the surcharge prior to the 10<sup>th</sup> of each month and the other which requires the City Council to approve all checks/payables during a regular meeting typically not held until after the 10<sup>th</sup> of each month.

- 06-03 Findings: *Utah Code* 10-6-116(4) requires that only the "fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes." The remaining 5% must be maintained as a maximum fund balance. The maximum in the general fund may not exceed 18% of the total estimated revenue of the general fund (*Utah Code* 10-6-116(2)). We noted that the City exceeded the maximum of 18% in the general fund at year's end.

Response: The audit indicated that the City exceeded the 18% mandate by a small percentage. On June 28, 2006 the Santa Clara City Council amended the FY 2005-2006 annual budget. One of the primary purposes of the budget amendment was to transfer funds from the general fund to a capital project fund to avoid exceeding *Utah Code* 10-6-116(2). It is apparent that projections were off to result in the fund balance exceeding 18%. Staff will continue to track the fund balance in subsequent years and make adjustments as necessary to remain in compliance with state code.

#### General Findings:

- 06-01 Finding: Not all of the City's bank accounts were reconciled to the general ledger at year end. The operating accounts (checking and money market) were reconciled properly, but the majority of the PTIF (Public Treasurer's Investment Fund) bank statements and bond related trust account bank statements were not yet reconciled to the general ledger at the time of the audit.

Response: The City's procedure for reconciling the PTIF bank statements with the general ledger has been changed to insure the monthly transfers and journal entries are completed in the same month.

- 06-02 Finding: The Percentages being used by the City's payroll software to calculate workers compensation insurance expenses and retirement/benefit expense appear to be incorrect. This caused the above mentioned expense accounts and the related payable accounts to be overstated. In addition, we noted the percentages used to allocate salaries and wages to the various departments and funds were not the same percentages used by the City in establishing their budget.

Response: The percentages in the City's software have been updated.

06-03 Findings: For six months during fiscal year 2006, journal entries to allocate interest earned on central treasury cash accounts to the appropriate funds holding monies in the central treasury were not prepared or posted.

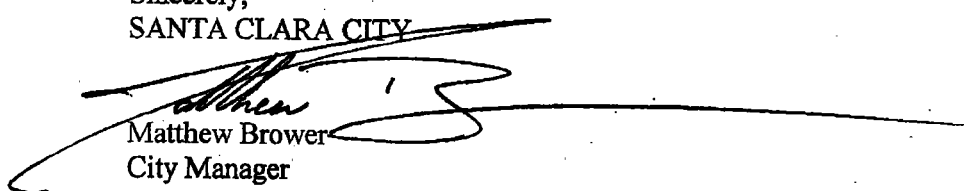
Response: The City hired a new Financial Officer in April 2006. Due to the immense amount of new information and assignments that had to be learned, this task was briefly put off. This task, however, is now completed on a regular monthly basis.

06-04 Findings: We discovered that the sewer department had overlooked making four payments to St. George City for sewer connection remittances. Two of the payments were in prior years and two were in the current year. A prior period adjustment of \$44,759 was posted for the payments missed in prior years. A liability in excess of \$92,000 was posted to correct this issue.

Response: The City has taken necessary steps to insure the remittances are completed in a timely manner.

If you have any questions, please let me know.

Sincerely,  
SANTA CLARA CITY



Matthew Brower  
City Manager

*"The Jewel of Utah's Dixie"*



**Mayor**  
**Rick Rosenberg**

**City Manager**  
**Matthew J. Brower**

**City Council**  
**Jerry Amundsen**  
**Bruce Anderson**  
**Herb Basso**  
**Matthew J. Ence**  
**Mary Jo Hafen**

February 28, 2007

~~MacRay A. Curtis, CPA~~  
Director, Local Government Division  
Office of the State Auditor  
State of Utah  
Utah State Capitol Complex  
East Office Building, Suite E310  
PO Box 142310  
SLC, Utah 84114-2310

Re: Corrective Action Plan

Dear Mr. Curtis:

The purpose of this correspondence is to communicate the City of Santa Clara's corrective action plan pertaining to State laws regarding budgetary compliance as requested in a correspondence dated February 12, 2007. It was requested that this corrective action plan be forwarded within 30 days of receipt of the February 12, 2007 correspondence.

During the 2005-2006 fiscal year the City of Santa Clara had three areas of the General Fund that exceeded their budgeted appropriations by the following amounts: Building Inspection (\$1,495), Public Works (\$4,492), and Swiss Days (\$101). The accompanying Corrective Action Plan will apply to all departments within the general Fund, not just the three that were out of compliance for fiscal year 2005-2006.

Herein below is the corrective action plan for Santa Clara City:

Contact Person: Matthew Brower, City Manager, Santa Clara City

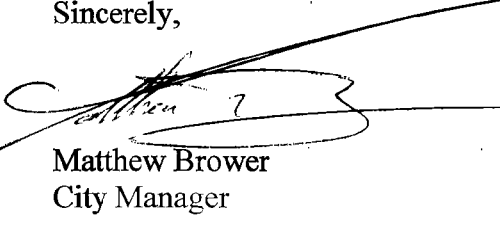
Corrective Action Plan:

- Santa Clara City has **instituted** a monthly budget maintenance and review process for all departments in the City. This process is to provide ongoing monitoring of expenditures in relation to the approved budget amounts.
- Budget Amendments will be made during the third and fourth quarters of fiscal year 2006-2007 as necessary to insure budgetary compliance.
- A quarterly review of encumbrances and open purchase orders will be undertaken beginning in the third quarter of 2006-2007 to monitor and account for anticipated expenditures.
- All budget expenditures will be frozen on June 14, 2007. This will allow the City to account for any outstanding encumbrances, purchase orders, and invoices to be included in a budget amendment, if necessary, before the end of fiscal year 2006-2007.

Anticipated completion date of corrective action plan: June 29, 2007

Should you have any questions, comments or concerns regarding the corrective action plan, please contact me at your convenience.

Sincerely,



Matthew Brower  
City Manager

CC: Hinton, Burdick, Hall, & Spilker, CPAs  
Mayor  
Council